

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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May 4, 2010

Ms. Terri King
Executive Director
Kings County Association of Governments
339 W. "D" Street, Suite B
Lemoore, CA 93245

Re: Kings County Association of Governments
Audit of Indirect Cost Allocation Plan for FY 2008/2009
File Number: P1591-0007

Dear Ms. King:

We have audited the Kings County Association of Governments (KCAG) Indirect Cost Allocation Plan (ICAP) for the fiscal year (FY) ended June 30, 2009, to determine whether the ICAP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the California Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. KCAG management is responsible for the fair presentation of the ICAP. KCAG proposed an indirect cost rate of 84.06 percent of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of KCAG. Therefore, we did not audit and are not expressing an opinion on KCAG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by KCAG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of KCAG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a review of KCAG's single audit report for the FY ended June 30, 2007, and 2006, inquiries of KCAG personnel, reliance placed on the single audit report for the FY ended June 30, 2007, and 2006, and prior audit field work performed by the Department in July 2007. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The results of this audit were communicated to Terri King, KCAG's Executive Director on January 28, 2010. Our finding and recommendation take into consideration KCAG's response to our draft finding dated January 28, 2010.

AUDIT RESULTS

Based on audit work performed, KCAG's ICAP for the FY ended June 30, 2009, is presented in accordance with 2 CFR Part 225 and LPP 04-10. The approved indirect cost rate is 84.06 percent of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry forward provision applies and no adjustment will be made to previously approved rates.

KCAG requested a provisional rate of 38.85 percent on January 16, 2009, for FY 2008/09. Audits and Investigations approved the provisional rate on January 20, 2009. As agreed to in the provisional rate request, within 30 days of issuance of this audit report, KCAG must reconcile all prior reimbursed claims that used the provisional rate of 38.85 percent with the final approved rate of 84.06 percent. KCAG will include any underpayment on the next billing to the Department. Interest may not be claimed on the underpayments.

Audit Findings

Finding 1: Unresolved Prior Audit Finding

KCAG does not maintain a detailed financial management system policies and procedures manual, specific to KCAG. Although KCAG utilizes the County of Kings policies and

procedures, where applicable, a separate and distinct financial management system policies and procedures manual for KCAG is needed to ensure adequate internal controls, particularly as related to labor charges.

Written financial management system policies and procedures provide staff instructions to perform their job efficiently, consistently and accurately. Adequate policies and procedures can minimize the possibility of accounting errors, inconsistencies, payment and billing of unallowable or ineligible costs, late or non-payments to vendors and erroneous general ledger entries. Without an adequate, up-to-date policies and procedures manual, the likelihood of misstatements, errors and even fraud, are increased.

49 CFR Part 18.20 (b) (3) Standards for financial management system states that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Recommendation

We recommend KCAG establish written policies and procedures which include details for all aspects of KCAG's financial management system, including, but not limited to the following: (1) accounting practices, (2) timekeeping, (3) travel, (4) procurement and contract management, and (5) billing to local, state and federal agencies.

Failure to establish KCAG's financial management system policies and procedures could jeopardize future ICAP approvals.

KCAG's Response

KCAG agrees with the finding and the recommendation.

Analysis of Response


The finding and recommendation remain unchanged.

This report is intended solely for the information of KCAG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and will be included on the "Reporting Transparency in Government" website.

Please retain the approved ICAP for your files. Copies were sent to the Department's District 6, the Department's Division of Accounting and the FHWA. If you have any

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questions, please contact Evajuani Bynum, Auditor at (916) 323-7879 or Amada Maenpaa, Audit Manager, at (916) 323-7868.

 MARYANN CAMPBELL-SMITH
Chief, External Audits

Attachment

c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass
Transportation
David Saia, LAPM/LAPG Coordinator, Caltrans Division of Local Assistance
Jenny N. Tran, Associate Account Analyst, Local Program Accounting Branch,
Local Assistance
Andrew Knapp, Associate Transportation Planner, Regional and Interagency Planning,
Division of Transportation Planning
Hector Rangel, Kings Regional Coordinator, District 6
Jim Perrault, Local Assistance Engineer, District 6
P1591-0007

**Kings County Association of Governments
FY 2008-09 Indirect Cost Allocation Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the Kings County Association of Governments and approved by Caltrans.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/08 to 6/30/09	84.06%	All Programs

* Base: Total Direct Salaries and Wages plus Fringe Benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined - either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements - any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency. The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 2008-09 Budgeted Indirect Costs	\$ 254,563
Carry Forward from FY 2006-07	<u>\$ 58,808</u>
Adjusted Indirect Costs for FY 2008-09	\$ 313,371
FY 2008-09 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$ 372,800
FY 2008-09 Indirect Cost Rate	84.06%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2009 (July 1, 2008 to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Kings County Association of Governments

Signature

Signature:

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Terri King

Name of Official: Terri King

Title: Executive Director

Title: Executive Director

Date of Execution: 1-29-10

Date of Execution: 1-29-10

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature

Signature

Reviewed and Approved by:

Reviewed and Approved by:

Title: Audit Manager

Title: CLIFFORD R VOSE

Date: 5-4-10

Date: 4 MAY 2010

Phone Number: 916-323-7940

Phone Number: (916)323-7917